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ABSTRACT

This 11th and concluding report in a series on the financing of higher education opportunities in California is an effort to bring together in one place and in summary form the main findings and conclusions of the Eureka Project, which was designed to increase among policymakers knowledge and understanding of the significant role of student financial aid in serving the public interest in California. The 20 findings include the following: major public policies for postsecondary education in California have come to depend for their implementation on the adequacy and effectiveness of the student financial aid system; financing college attendance has, in the 1980s, become much more precarious; the inadequacies of the aid system are causing shifts in the sources of higher education finance that may be affecting the educational process itself; and very few students or parents have the understanding they need of the basic features of the aid system. Nine recommendations addressing the most serious aspects of the problem include: (1) California should take a role by building on the potential of the student financial aid system and balancing policy priorities; (2) the role of loans in the student aid system should be defined as a matter of public policy; (3) California needs to stress the importance of using student financial aid to reduce the disparity between tuition and fees at public and private colleges; (4) the student aid system should provide more flexible alternatives for financing higher education; and (5) the public needs to give the student aid system the priority it deserves. An appendix provides a guide to related documents. (SM)

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THE EUREKA PROJECT

A Review of Student Financial Aid in California

Findings and Recommendations

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THE EUREKA PROJECT

A Review of Student Financial Aid in California

Findings and Recommendations

June 1988

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PREFACE

Student financial aid has become a major and complex educational industry. This year in California alone expenditures will be approximately $1.5 billion in all forms of financial assistance—grants, loans, and jobs. It is not only large, it is also complex. Anyone who has been associated with student financial aid is soon struck by how complicated the rules and structure are and how the students and colleges must deal with a multitude of agencies and organizations.

Thirty years ago student financial aid in California was less than $10 million. The few government programs that existed were relatively simple in design. While funds were inadequate, the standards and procedures were comprehensible to all involved. Administration was, by today's standards, simple. Limited student financial aid, largely scholarships, was an activity funded by individuals, college endowments, and local groups. Even scholarships financed by PTA bake sales or similar activities were important to the total structure of financial aid.

Over the last three decades all financial aid has grown and its composition and sources of funding have markedly changed. In the last ten years loans have replaced grants and scholarships as the principal form of student aid. With a massive infusion of loan funds through commercial lenders, the nature of student financial aid has changed.

As student financial aid has assumed a larger role in postsecondary education, it has become more important to review the policies that have undergirded it. Policies, either as specifically adopted or developed in an evolutionary way, need to be reviewed for their past effect, current value, and future utility. Problem policies need to be identified and policies appropriate for the balance of this century developed.

Concerns about student aid policies led to the creation of The Eureka Project, a privately organized, funded, and directed review of student aid policies in California. It is entirely funded by major grants from the James G. Irvine, Weingart, and John Randolph Haynes and Dora Haynes foundations, and by a supplemental grant from the Atlantic Richfield Foundation.

The Eureka Project is under the general direction of a board of directors, with more technical and specific advice to the project given by a steering committee composed of representatives of interested groups and institutions in California. A staff of consultants has come together to direct and write the various studies under The Eureka Project. The reports do not necessarily represent the views of the four California foundations whose grants have made the Project

possible or of the members of the Board of Directors or of the Steering Committee.

The Eureka Project has studied the financing of higher education opportunities in California and the impact of current financial aid programs upon the formal structure of higher education and students. There is concern that the door of educational opportunity may be closing, that the health and vitality of quality independent institutions could be at risk, and that the current student financial aid system has a wide range of unintended consequences.

The Eureka Project has issued ten reports. This is the eleventh and concluding report in the series. It is an effort to bring together in one place and in summary form the main findings and conclusions of the Eureka studies. Additional research and analysis is called for, but some things need urgently to be said now concerning the present condition of the student financial aid system.

The Project's objective was to increase among policy-makers knowledge and understanding of the significant role of student financial aid in serving the public interest in California. By its efforts, it has dealt, for the most part, with policy considerations and has not attempted to describe and evaluate the multitudinous administrative issues and problems in the labyrinthine structure of student financial aid. It is sufficient to say that both policy and administration demand continous review and evaluation.

Several organizations and many people have made the Project possible. We are particularly grateful to the four California foundations which provided generous financial support. The Board of Directors and their representatives gave support and advice. The members of the Steering Committee and the advisory committees on minority students and financial need analysis standards were most helpful in designing studies and reviewing draft reports. Many talented individuals helped write and/or reviewed the published reports. Their names are listed in the preface of each report to acknowledge, however inadequately, their contributions to this effort. Special recognition is due Martin Kramer, Arthur Hauptman, John B. Lee, Jill Tronvig, William Van Dusen, Tim Warner, Barbara Wolfinger and Raymond Wolfinger, who wrote and edited with skill the reports in the series. Carole Eudey provided secretarial help and assisted effectively with many of the administrative details. Stanford University generously served as the fiscal agent and provided accounting and financial services.

The Eureka Project's ten reports and this final document of the summarized Findings and Recommendations should be useful references for all those individuals who will decide the future of student financial aid in California.

Arthur S. Marmaduke
Executive Director
The Eureka Project

FINDINGS

The following Findings are based upon information drawn from the ten Eureka reports.

Finding 1: Major public policies for postsecondary education in California have come to depend for their implementation on the adequacy and effectiveness of the student financial aid system.

> Thirty years ago roughly $10 million in student aid funds helped California students pay the costs of attending a college or university. By academic year 1986-87 that amount had increased to over $1.5 billion, and played a part in financing the education of an estimated 330,000 students in the state. This number includes over a third of all undergraduate students. (BR)*
>
> It is upon this aid system that California has come to rely to achieve goals of equal opportunity, a productive workforce, social mobility in a pluralistic society, and the training of those who will be future leaders and discoverers. To allow a deterioration of the student financial aid system would risk the excellence in these areas on which the state and its people rely and in which they have invested heavily.

Finding 2: The student financial aid system must be thought of as an integral part of the financing of postsecondary education. It is of critical importance to students attending all kinds of institutions, and increasingly to institutions also.

> The role of student financial aid is to bridge the gap between what educational programs cost and what the individual student can afford to pay. Aid seeks to bring two kinds of budget into balance—the student's budget and the college's budget, at the same time sustaining enrollments. (MF, OO)

*This and similar letter codes indicate the Eureka reports that are the basis of the finding or that provide related information. The appendix is a list of these reports alphabetized by the letter codes.

At public colleges and universities direct state aid does much of the job of bringing institutional budgets into balance, but fees remain. Student budgets must pay these fees and also expenses for room, board, books, transportation and other essential items. These other expenses can be just as important an obstacle to be overcome as are fees, if students are actually to be able to attend college. (MF, OO)

Where tuition and fees are a larger fraction of student need, as at independent colleges, they also represent a basic source of revenues to meet the institution's budget, unsupported by direct state subventions. Aid, whether from internal or external sources, is the factor that reconciles the needs of institutional financial health and an institutional commitment to equality of opportunity. (MB)

Finding 3: The student financial aid system is that part of higher education finance that impinges most directly on family finances, and thus affects far more people than are current recipients of aid. As many as 800,000 households in California may currently be affected by aid programs.

Parents who are seeking to contribute what they can to the education of their children have a stake in the adequacy of the aid system. So do the families of former students whose budgets must include, for a number of years, payments to retire educational loans. (BR)

The fairness as well as the adequacy of the aid system is therefore a major concern. A tradition for seeking consensus about fair assessment of the relative ability of parents to pay for higher education goes back for over thirty years, in the form of "need analysis." (OO, MF) The lack of a similar consensus about the appropriate size and distribution of debt burdens among students is disquieting. (PC)

Finding 4: The student financial aid system has been and can continue to be, an essential and effective component of strategies to equalize opportunity for postsecondary education in California.

Growth in the array of student aid programs has increased the accessibility of postsecondary education and broadened choice of institution for low income and minority students. Although the factors impinging on decisions about college vary from period to period, and although more research is needed about them, there is evidence that the college-going patterns of those who generally could not afford college without aid have changed positively as a result. (CD)

The availability of aid gives credibility to the possibility of going to college, and thereby supports the schools in encouraging students to work harder and more purposefully to prepare themselves. When students have prepared themselves, aid then makes college attendance possible in fact.

This interactive relationship between aid and other support for aspirations is evidenced by much higher college-going rates for students who receive such support than for those who do not. For example, only 44 percent of all low income California high school graduates entered postsecondary education in 1980, but 68 percent of low income students receiving such support did so. (CD)

This means that when fewer students receive support for college aspirations in high school, as occurred over the decade of the 1970's, aid can do less to increase college going rates. It also means that the new emphasis on academic prep-

aration in the 1980's can have its full effect on college going rates only if coupled with an adequate student aid system. (CD)

Finding 5: The amounts of aid available to typical low and middle income students have become less adequate since the mid-1970's, when compared with costs of attendance.

Borrowing and saving on costs through living at home have become much more often critical to making the costs of attending a public institution manageable. Indeed, only by *both* expedients are all types of public institutions in reach financially of all typical low and middle income students. (CD)

Borrowing and also receiving substantial amounts of aid from the college itself have become critical in putting independent institutions in reach financially. (CD)

This situation has resulted from the fact that the amounts of grant aid available from public sources have not kept up with rising costs and are spread more thinly across the eligible student population. These developments followed a period of rising public appropriations for grants that may have persuaded private philanthropy to reduce its aid allocations, although precise measures of this trend are unavailable. (CD)

Finding 6: Financing college attendance has, in the 1980's, become much more precarious.

Student loans, which once were a supplemental form of aid, affording convenience to families and individuals and allowing the aid system to be flexible, now have to be relied upon to meet basic costs of attendance in more and more cases. This means that loans are often no longer available to permit wider choice among colleges or to make up the difference when funds from other sources turn out to be inadequate. (CD)

With these uncertainties it has inevitably become much harder for parents and school counselors to work with the student to develop a financial plan that all of them can have confidence will work. (OA)

Finding 7: The difficulties of parents in meeting their responsibilities and their anxieties about being able to do so pose a major policy problem for the student financial aid system. Parents who are expected to pay a substantial share of college costs are, in fact, often poorly prepared to deal with a large and growing financial responsibility.

Many parents have never accumulated substantial savings in order to meet college expenses. In the 1970's low interest student loans, available without regard to financial need, could often be relied upon to make up for inadequate savings. (CD)

Now, however, a number of circumstances have put families without adequate savings for college in a vulnerable position: (PC)

(a) Beginning with the 1987-88 academic year students are not able to borrow in the federal Guaranteed Student Loan (GSL) program except to the extent that they can show financial need remaining *after* a presumed parental contribution.

(b) Appreciated home equity will count toward increasing this presumed contribution.

(c) Interest on consumer and educational loans will not be tax deductible after the Tax Reform Act of 1986 takes full effect, although borrowing against home equity will continue to be so.

Public opinion data and interviews with parents suggest that anxiety about being able to finance college was high even before these new factors entered the picture. In the fall of 1986 over 70 percent of the public believed that college attendance is out of reach financially for most people. (OA)

Finding 8: The inadequacies of the aid system are causing shifts in the sources of higher education finance that may be affecting the educational process itself.

In the late 1970's loans represented about a fifth of all aid; they now represent almost half. In California the GSL Program alone now accounts for 42 percent of all aid. (PC)

Traditionally, parents were regarded as having the primary responsibility to pay for college. Grants awarded on the basis of measured financial need had the role of doing for low and middle income students what their parents could not do. Now, however, increasing reliance on student loans means the shift of a growing part of the financial burden from parents and the public to students themselves—beyond the traditional share assigned to students on principles of self-help. There are programs that sponsor loans to parents, and these are growing, but they are very small in comparison to the volume of loans for which students are liable. (PC)

There are questions of equity about this shift to reliance on student loans. When students borrow more and their parents and current taxpayers pay less, there is a shifting of financial burden from one generation to another. There is also an ethical puzzle about offering more equal educational opportunity at the cost of very unequal post-education debt. And there is a problem for programs aimed at making women and ethnic minority students more willing to attempt higher education, if, at the same time, worry about being able to repay large amounts of debt is chilling to their aspirations. (PC)

The attitudes of students toward reliance on debt are transmitted to the educational process. Some students participate less fully in the educational life of their institutions in order to earn more money in jobs and thereby avoid more debt. Some observers are concerned that there may be a tendency for students to choose more lucrative careers so that debt can be more easily repaid. Others are concerned that students who lack confidence in their abilities and prospects may be deterred from attending college at all. (PC)

Finding 9: Increasing dependency on debt financing has occurred without clear policy direction.

The shift to debt financing has mainly been gradual, the sum of many individual student decisions to use loans to meet costs of attendance because enough other resources were lacking. Public policy concerning the shift has been made only in fiscal terms, that is, as part of a larger effort to restrain budget growth in public service and transfer programs generally.

Because there has been so little policy debate or policy direction, the shift has come to seem inevitable. It is not, however. Measures could be taken at the state or federal level to reduce reliance on loans. Those parents who can pay more could

perhaps be induced to do so. The possibilities for student employment programs have by no means been exhausted. More philanthropic donors could allocate funds to augmenting institutional grant funds. And, of course, public funding for grant programs could be increased.

Finding 10: The Cal Grant programs and the Guaranteed Student Loan program are now much less effective in reducing the impact of differences in tuition and fees between public and independent institutions.

In the early 1970's the maximum Cal Grant A award covered about 90% of the average tuition and fees of independent colleges for students who needed this much aid. This percentage has fallen to about 50%. In the early 1970's the maximum GSL loan entirely covered such average tuition and fees. It now covers less than a third.

Consequently, the current out-of-pocket cost of attending an independent college can no longer be kept approximately the same as those of attending a public institution, either by winning a Cal Grant A award or, failing that, by borrowing. The price difference between public and independent higher education is, accordingly, a much more serious consideration for families. (OO, CD, MB)

Finding 11: A difficult choice confronts an independent college having to deal with a short-fall in student aid funds from sources external to the institution: it must either reduce funding resources for its educational program to make up the difference, or it must reduce the representation of low and middle income students in its student body. Both choices are at odds with good public policy.

An independent college or university provides from its own resources three kinds of financial support for the education of its students:

(a) Unrestricted gift and endowment support that permits it to charge less than the cost of its educational program.
(b) Funding for student aid from earmarked gifts.
(c) Student aid budgeted out of tuition revenues available for its educational program.

A reduction in student aid from external—mainly public—sources forces a diversion of funds available under (a) or (c) if the number of financially needy students recruited (and their aggregate need) is to remain the same. So either the educational program or the economic, ethnic and social mix of the student body must suffer, unless the flow of gifts and tuition revenues can be increased. Yet both educational quality and educational opportunity are high among the goals of public policy. (MB)

Finding 12: The evidence indicates that few California independent colleges have been able to avoid the adverse consequences of this student aid dilemma.

The evidence is of several varieties:

(a) Aid funded out of the institution's budget has substituted for a substantial part of the reduction (relative to costs) in public aid sources.
(b) Much of the addition to institutional aid funds has been funded out of tuition increases.
(c) In many cases it is clear that physical plant or the competitiveness of faculty

salaries (or both) have suffered as a result of efforts to replace external aid funds.

(d) Requiring all aided students to borrow the maximum allowed under the GSL program has become routine.

(e) At most independent institutions it is no longer possible to work out student budgets that are in balance, with resources matching expenses of attendance. This means that students' families must find additional money over and above their measured ability to pay if the student is to enroll. (MB)

Finding 13: There is no evidence that increases in federal or state aid have resulted in tuition increases at independent colleges, for there have been no real increases in such aid per student over the period (roughly from 1980) that tuitions have increased rapidly to catch up with inflation and to provide internal funding for student aid.

In the mid-to-late 1970's (roughly from 1975 to 1979), when federal and state aid funding was growing rapidly, independent institutions in California generally held tuition increases below the rate of inflation. Since that time tuition increases have generally exceeded the rate of inflation in an effort to restore the purchasing power of faculty salaries, to update equipment and to deal with a backlog of deferred facilities maintenance. However, corresponding increases in the real amount of aid funds per student from public sources have not occurred. (MB)

In recent years, all but a few of the aid-eligible students at independent colleges have been using all the federal and state aid funds allowed them by law. Independent colleges have not captured many additional aid dollars from public sources by raising tuition, because there has generally been little left to capture.

Finding 14: What makes it possible for the existing over-complicated financial aid system to work at all are methods for estimating financial need, the practice of packaging aid from multiple sources and the autonomous role of campus student aid administrators. These central and enduring elements of the aid system are sound and resilient.

Much of the structure that enables the student aid system to work predates the large public programs and was developed by colleges and universities for the administration of their own aid funds. This structure includes consistent methods of estimating the ability of families and independent students to pay college expenses, and the use of money from all sources to bridge the gap between what they can afford and actual college costs. The structure assumes aid administrator discretion in tailoring the aid package on a case-by-case basis. (OO)

These approaches have proved to be highly flexible and have made it possible for colleges and universities to adapt changing sources of finance to changing student circumstances. The increasing complexity of the demands and constraints on this flexibility have, however, brought it close to limits of practical effectiveness.

Finding 15: The sources of future adaptability in the aid system are threatened. The federal government has made it increasingly difficult for the states and the community of student aid administrators to exercise the kinds of autonomy which made the evolution of a flexible system possible.

In the Higher Education Amendments of 1986, the Congress specified for the first time, in detail, how the ability of families to pay for higher education should

be calculated in determining need for aid in all the generally available federal programs. Higher education and the student aid community have thereby lost a great degree of self-governance in such matters. With it may have been lost a sense of responsibility for the rational evolution of a coherent system. (MF)

Developments in the largest federal program—Guaranteed Student Loans—have also tended to reduce autonomy and flexibility. Although states largely administer the GSL program (and have been offered generous incentives to do so) they have been allowed no latitude on vital matters such as the eligibility of students and institutions for loan programs. GSL loans must henceforth be in amounts limited to need as measured by the 1986 Amendments. (CD)

These developments are the more troubling, in that they do not reflect a concomitant degree of federal leadership in keeping the resources available for financing higher education in some kind of balance according to explicit policy criteria.

Finding 16: A lack of coordination between state and federal aid programs has exacerbated the complexity and instability of the aid system.

Neither the federal Pell grant nor the GSL program has heretofore used the same method of estimating family ability to pay for education as the Cal Grant programs, although this is now changed.

Pell grant award amounts have been unpredictable from year to year and, more recently, eligibility for GSL loans also.

Inflation has frequently reduced the purchasing power of federal and state student aid *at the same time,* so that state programs could not compensate for reduced federal awards, or federal for state. (CD)

California has made a consistent effort (greater than that of many other states) to coordinate federal and state aid application procedures for the various programs, but many procedures subsequent to application are still different. (OO, RA, BB)

The result of lack of coordination is an unpredictability of aid awards, both short term (that is, in working out a student's budget for the coming year) and long term (that is, for families engaged in advance financial planning for their children's education).

Finding 17: Very few students or parents have the understanding they need of the basic features of the aid system.

This is probably because those features are embedded in a highly complex process for determining aid eligibility under many separate programs, a process that changes frequently and has different outcomes from year to year. (RA)

When component programs are described, even clearly, the focus tends to be on their distinguishing eligibility conditions, on how they have recently changed and on uncertainty about the future. This is not the basic information that parents and students need. (RA)

Need analysis, packaging and aid administrator discretion have made the system workable, but they have not made it intelligible. Although it works as a system, it is not understood and relied upon as a system. (CD)

Although much can be done to improve the awareness of students and parents about how the system works, the programs themselves are not stable enough or coherent enough to represent a clear offer of opportunity that will adequately support college aspirations. (CD)

Finding 18: Although the structure of aid to graduate and professional school students is different than that of undergraduate aid, many of the aims are similar: to enhance educational opportunity, to encourage social mobility and to bring talented people together in centers of educational excellence. Most difficult is to make academic Ph.D. programs attractive to enough potential minority group candidates.

The importance of fellowships and teaching assistanceships for Ph.D. candidates is quite unlike anything in undergraduate student assistance. So are the very high levels of debt contracted by students in professional schools. (AB)

Fundamentally, however, the goals of aid to graduate students are like those of aid to undergraduates: to make education and training financially possible and to provide encouragement for individual students to prepare themselves for their careers. (AB)

In terms of these goals, the greatest differences result from the long lead-time of preparation for graduate and professional programs and the greater selectivity of admissions to those programs. As a result, it is difficult for the graduate financial aid system to provide encouragement to talented individuals early enough in their careers. Because of this difficulty many talented minority students fail to prepare themselves adequately in high school for college, or in college for graduate school. (AB)

Finding 19: The California public is generally supportive of student aid, and this support is bipartisan. Yet the public thinks that college is not affordable for most people and that costs will be still more prohibitive in the future.

These attitudes, in combination, suggest that the public does not see student aid as providing a permanent system of support for individuals that must be adequate and reliable in the way that Social Security has been expected to be.

The unintelligibility of student aid policies and programs affects the general public as well as students and their parents. Many members of the public have exaggerated ideas about student loan default rates, and many appear not to understand that aid is awarded at all kinds of institutions and to all social groups primarily on the basis of measured financial need. (OA)

Finding 20: The people of California have created a broad array of opportunities for postsecondary education; however, these opportunities are not fully used.

There has been a failure to convey a clear and convincing message that the student financial aid system can be relied upon to make the costs of college attendance manageable. Evidence indicates that the system has become less adequate and reliable in recent years. This has undermined confidence that college attendance is worth working toward—both academically on the part of students and financially on the part of parents.

RECOMMENDATIONS

In the light of the preceding findings, it will be a test of the spirit and commitment of California to arrest the decline in the adequacy of the student financial aid system before lasting damage occurs. The following recommendations address the most serious aspects of the problem:

Recommendation 1: The State of California should take the leadership role by building on the potential of the student financial aid system and balancing policy priorities.

California has made major commitments to equality of opportunity for higher education and has a large stake in the success of those commitments. No one else is in a position to decide what will work best and most fairly for California students. The federal government, although it is (and may remain) the largest provider of funds to the aid system, does not see itself as designing and implementing a comprehensive and balanced policy of educational finance. Colleges and universities have gone about as far as they can go in augmenting aid funds from their own resources. Families are anxious about college costs, but are unsure about the extent of their financial responsibility and how best to meet it.

It falls to the state to delineate a balanced offer of educational opportunities. Balancing the part to be played by aid and the part to be played by family resources, balancing aid for access and aid for choice, balancing grant and loan financing—these represent policy choices that are unlikely to be resolved for the citizens of California by anyone but the State of California.

Recommendation 2: Four things are needed if the financial aid system is to reinforce the efforts of the high schools to prepare students for college: adequate aid levels that clearly make college feasible; awareness of this early in high school; stable and coordinated policies that will make the offer of aid reliable; and simple eligibility rules that parents and counselors can work with in helping the student plan for college.

The capacity of existing aid programs, as presently funded, to provide needed financial support to low and middle income students has been stretched to the utmost. The dependence of many students on GSL loans to meet basic costs of attendance is evidence of how scarce other aid resources have become and how inflexible and precarious the system now is.

But the offer of opportunity the aid system makes to students needs also to be more stable and intelligible. If high school students are to work to prepare themselves for college, they need to know that college opportunities will still exist when they graduate. To assure students of this, it will be necessary for the State to commit itself to making future program adjustments that will maintain the balanced policies called for under Recommendation 1.

Further, if parents are to commit themselves to saving for college, they need to know what they can count on from aid resources. If high school teachers and counselors are to be supportive of college aspirations, they need to be put in a position where they can deliver a clear and credible message of opportunity coming jointly from federal and state governments. This means that state policies need to be expressed in rules which will allow family contribution, aid (grant and loan) and self-help expectations to be estimated well in advance of actual enrollment.

Recommendation 3: California needs once again to stress the importance of using student financial aid to reduce the effective disparity between tuition and fee costs at public and independent institutions.

The independent institutions of the state have lived up to the expectations which led to the creation of the California State Scholarship program in the early 1950's. They have continued to provide a variety of curricula and learning environments that have meant real choice. Some have been more selective, some less selective than the state's public baccalaureate institutions. And they have, with the support of the Cal Grant programs, made major strides toward increasing the income and ethnic diversity of their institutions. (CD)

In recent years, the independent institutions have performed this role only by increasingly difficult allocations of their own resources to student aid and by insisting on very high levels of self-financing among their low and middle income students. In these circumstances of financial strain, it is hard to believe that they can indefinitely sustain the role they have played, let alone extend it. A return to greater sensitivity of aid awards from public sources to tuition costs appears essential if these institutions are to continue to perform their function.

Recommendation 4: The role of loans in the student aid system should be defined as a matter of public policy. Loans should not simply be left to serve as a poor substitute for grants.

Loans can appropriately:

(a) Allow parents and students to spread obligations over time.
(b) Enable students to meet part of their self-help responsibility.
(c) Reduce the difference in out-of-pocket costs between attending public and private institutions.
(d) Provide a supplementary financial resource to turn to when a student's budget is undermined by adverse events.

There are also things that student loans should *not* do:

(a) Loans should not become a routine resource in the budgets of students attending low fee public institutions.
(b) Loans should not be relied upon by high risk students.
(c) Loans should not be a vehicle for parents (or the public) to accomplish a major shift of financial burdens to the student generation.

Recommendation 5: The student aid system should provide more flexible alternatives for financing higher education. Especially promising are new plans for savings accounts or bonds that would be tax free if used for educational purposes.

There is evidence that parents, students and institutions are now barely able to get by financially. This is largely due to failure of aid funding and maximum individual awards in the public programs to keep up with inflation. One result has been the need to rely on the GSL program to pay for basic costs of attendance, largely exhausting the capacity of the program to provide an alternative source of flexible financing. Now that the GSL program itself is to be means tested, its role as a financing alternative is ended together. As another result, demand for discretionary grant funds outstrips supply even more than in the past. (PC)

One solution to the problem would, of course, be to reverse recent trends and to return public funding and real dollar award limits to levels comparable to those of the mid-1970's. But if fiscal constraints make such a restoration impossible (or possible only in part), then new mechanisms are essential to encourage saving by parents and to make loan repayments more manageable for both students and parents.

In recent months a number of tax free savings plans have been suggested in Washington and Sacramento. These plans would provide new incentives for parents to prepare early to meet their financial obligations. There are several variations: Some plans would specify investment in a particular kind of financial instrument, issued by federal or state government, that would earn interest exempt from federal income tax if used to pay college expenses. Other plans are modeled after Individual Retirement Accounts (IRA's), and would permit accumulation of earnings free of tax if used for educational purposes. Under these latter plans the funds in monitored accounts could be invested in a variety of financial assets.

College savings plans of any of these kind have great advantages of simplicity and predictability over most of the other financing alternatives being widely discussed. They also could have the advantage of changing the savings habits of the public and improving the savings rate—a highly desirable development for the economy as a whole. The main problem of these plans is to target tax subsidies efficiently. This can be done if the tax benefits of the program are highly concentrated on families with incomes near or below those that would make their offspring aid-eligible. (PC)

Quite different plans have also been proposed:

(a) Plans permitting parents to purchase waivers of future tuition charges or equivalent entitlements at the price of present tuition (tuition futures and similar plans).
(b) Plans in which a borrower's annual repayment installment is a fixed percentage of his or her income, rather than a fixed number of dollars (income contingent loans and similar plans).

(c) Plans for creating public service job opportunities for students, with part of their compensation taking the form of help with college expenses.

All these kinds of plan have merits. Alternative versions of them should be spelled out and evaluated against each other. However, the most common versions of tuition futures and income contingent loan plans are seriously flawed.

The common flaws of tuition futures plans most frequently discussed are two. First, they rely upon anxiety about steep future tuition increases as a major motivation for participation. There is no rational basis for sanctioning or promoting this anxiety, least of all on the part of the institutions and state governments that will do the increasing, if it occurs. Second, the plans are usually contorted by features designed to prevent the appreciation of the parents' rights from being held taxable income. These contortions tend to constrain student choice of college and to create new sources of anxiety. Far better are savings plans that are straightforward in conferring tax incentives.

The flaw of even well designed income contingent loan plans is that they encourage (intentionally or not) a shift of financial burdens from parents and the public to students themselves. Considerations of equity quite aside, such a move would relieve the excessive burdens of two parties to higher education finance by adding them to those of another. This kind of move would seem to fly in the face of the fact that all parties are experiencing strain and that each of them needs a variety of alternatives that will make their burdens easier to bear. Instead of shifting sources of finance, what is needed is a broadening of the range of choices. (PC)

The difficulty with proposals for public service jobs is in designing a national or state-wide program that meets the needs of all kinds of students and all kinds of public service at the same time. But there appears to be no need to wait for a resolution of such issues: the public needs exist and the students exist. The task is to bring them together on a case-by-case basis, with money to pay for student work coming from service organizations, philanthropy and the College Work-Study Program. Public-spirited entrepreneurship of a high order is, however, required. (PC)

Recommendation 6: The desirability of new vehicles for financing higher education should not be allowed to detract from the priority of the scarcest form of aid—grants—or the priority of meeting the need of those low income students for whom grants should be the aid of choice.

The best designed savings and loan repayment plans will not be of much use to low income families that can save or repay very little. Nor are such plans likely to be perceived as an offer of opportunity supportive of the college aspirations of low-income and minority students. These students often also lack opportunities for employment and may be less able to spare time for jobs. Dependence on loans will tend to discourage their enrollment and persistence to graduation. For these students grants are likely to remain the aid of choice for decades to come.

Yet grants are chronically the scarcest kind of aid. In an economy such as that of the United States there are no pre-set limits to the amount of credit available or the number of jobs that can be created. But the invisible hand of the market does not make grants. There are only two sources of grants, government and philanthropy, and these sources allocate funds to student aid only by taking positive action.

Two points follow from these considerations. First, when government examines proposed new mechanisms to encourage saving for college, to make student loans easier to repay or to increase the availability of jobs for students, the mechanisms will often be proposals involving subsidies. A good test for whether the level of

subsidies is justified is whether the proposed program is likely to free up more resources for additional grants to low income students than the subsidies are likely to absorb.

Recommendation 7: Those who have the responsibility to decide among philanthropic goals—individuals, foundations, associations and business corporations—should take a fresh look at the usefulness of allocating funds to student aid and to student grants specifically.

In the 1970's many philanthropies scaled back their commitments to student aid in the belief that government would henceforth take the responsibility. For a time, government did just that. Then, in the 1980's the federal budget deficit and, in California, Proposition 13, brought much less generous public budget allocations for student aid.

Philanthropy is becoming aware that it is needed again. Colleges and universities are making their alumni and major donors aware that aid has become a high priority category for gifts. Corporate leaders—as in Boston—are undertaking broad new commitments. The general return of philanthropy could not come too soon, especially in funding grant programs.

Recommendation 8: Financial assistance programs for graduate and professional school students should be augmented to make an important contribution to two major policy objectives: (1) increasing the number of minority group members receiving the doctorate and (2) reducing the fear of debt as a barrier to professional school aspirations for women and minorities. Without such action on student assistance, the goal of more representative professions and college faculties will be delayed far longer than necessary.

(a) To meet the demand for minority group members holding the doctorate, California should establish a new or amended graduate fellowship program in which highly promising candidates would be identified while still undergraduate students. The shortage of minority Ph.D.'s in many academic fields is extreme, especially of Blacks and Hispanics. The problem of underrepresentation is especially glaring in California because, together, minority groups constitute a large and growing fraction of the total population. The state should be a leader in working to resolve the problem.

The root of the problem lies in the fact that very few undergraduates in the underrepresented groups, however talented as individuals, give much consideration to the possibility of an academic career. They must be sought out, identified and encouraged, and at an early date, if they are to prepare themselves for admission to graduate schools. Just as the college aspirations of low-income and minority high school students need the support of assurance that college will be financially feasible, so minority college students need to know that graduate training is a realistic possibility in order for them to take it seriously and work toward it. College sophomores or juniors cannot be expected to have decided about a precise field of graduate study or about their choices of institutions. It would, therefore, seem wise to make early conditional awards of fellowships neutral as to field and institution.

(b) California should develop a plan to protect underrepresented women and minority professional school students from levels of student debt that would be a serious hardship to repay. Extremely high levels of debt are common among students in law, medical and business schools. Relatively few grants and fellowships are available to professional school students and many of them cannot expect parental support at the graduate as well as the undergraduate level.

The dependence of professional school students on loans is widely viewed (even by the students themselves) as an acceptable condition on access to the professions, because these are often lucrative, allowing debt to be repaid without serious discomfort.

This premise is often less acceptable where underrepresented women and minority students are concerned. If society wants such students, while still undergraduates, to commit themselves to one of these professions, then debt levels are likely to be an obstacle. These students cannot be expected to be as comfortable about high debt levels as male and majority students, for they are often less sure about completing qualifications for the professions and less sure that the financial rewards will come their way. Fears along these lines may be increasingly groundless, but policy needs to come to terms with them all the same.

The most direct and also the least costly way of dealing with these concerns would be a program that pays part of the student's loan repayment installments during periods when full payments would work serious hardship; that is, at income levels that are low relative to typical incomes in the professions. The payments made on the student's behalf could either be, in effect, grants, or could give rise to new debts to be paid off when the financial situation of the student improves. The objective would be to give assurance, early enough in college, that underrepresented women and minority students need not be worse off in aiming for the professions than their male and majority contemporaries.

Recommendation 9: The public and its representatives need to give the student aid system the priority it deserves and the attention it demands. It deserves priority, because of what is at stake in terms of educational opportunity. It demands attention, because neglect of vital details can undermine the system of higher education finance.

Loss of priority and inattention to details has in some cases already led the system to falter. The consequences of more serious failure could be harmful in the extreme for the people of California.

The investigations of the Eureka Project have come across a pattern of policy making in student aid matters that gets in the way of having a fully effective set of programs. It is a kind of short-sightedness: A program is altered without enough thought to the balance among all programs together. Or an incentive is created that reduces efficiency and integrity. The needs of one constituency are allowed to monopolize attention for a time and funding for others shrinks in real terms. Intriguing and contentious program mechanisms distract attention from the immediate concerns of students and those who work with students.

There are reasons why these things happen. There are many programs and they are complex and expensive. Their mechanisms are very different, and interact in

ways that are hard to anticipate. Yet the aid delivery system is highly flexible and accommodates shortsightedness without immediate disaster.

In the long run, however, the consequences of such policy making are serious. Only clear priority and analysis that is both comprehensive and painstaking can break out of the pattern. Without such priority and analysis in framing the policy agenda of student financial aid, the system will accomplish less than the people of California can expect.

APPENDIX

A Guide to Related Reports

(alphabetized by letter code)

Letter Code	*Title*	*Date of Publication*
AB	After the Bachelor's: Student Financial Aid for Graduate and Professional School Students in California	April 1988
BB	Beyond the Borders: A Discussion of Student Financial Aid and Educational Opportunity in Texas, New York and the Pacific Rim in Relationship to California	March 1988
BR	Briefly Speaking: An Introduction to Student Financial Aid in California for Policy Makers	November 1987
CD	The Critical Difference: Student Financial Aid and Educational Opportunities in California	March 1988
MB	Maintaining Balances: The Relationship Between Student Financial Aid and Institutional Finance	March 1988
MF	Measuring Financial Need: A Review of Student Financial Aid Eligibility Standards	March 1988
OA	Opinions and Attitudes: How the Public, Students and Parents View Student Financial Aid	March 1988
OO	Origins and Outcomes: An Essay on the History of Student Aid in California	May 1987
PC	Paying for College: Student Loans and Alternative Financing Mechanisms	May 1988
RA	Running the Application Course: The Student Financial Aid Delivery System	November 1987